A REPORT TO

THE COMMITTEE ON APPROPRIATIONS

U.S. HOUSE OF REPRESENTATIVES

on the

IMPLEMENTATION OF THE COMPETITIVE SOURCING INITIATIVE AT THE U.S. FOREST SERVICE

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SUMMARY

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The Federal Government has a longstanding policy of subjecting commercial activities being performed by Federal employees to public-private competition; however, despite studies showing cost savings and efficiencies to be achieved, few agencies have complied. In FY 2001, the Office of Management and Budget (OMB) estimated almost 50 percent of Federal employees were performing work that could be done by commercial providers. In FY 2002, the Administration identified the Competitive Sourcing Initiative (CSI) as a major part of its management agenda. CSI focuses on revitalizing and institutionalizing public-private competition through ensuring dedicated high level management commitment and simplifying and improving competition procedures. As part of this effort, OMB has strengthened and clarified OMB Circular A-76, "Performance of Commercial Activities," which provides Federal agencies policies and procedures for conducting public-private competitions.

Under CSI, agencies are required to: (1) prepare annual inventories of all of their commercial and inherently governmental activities, those activities so intimately related to the public interest as to mandate performance by Government personnel; (2) develop CSI competition plans identifying the number of Full Time Equivalent (FTE) positions and the type of activities to be subjected to competition annually; (3) conduct public-private competitions, also called studies, to determine who should perform the service, Government employees or a private sector contractor; and (4) provide post-competition management and accountability to ensure the provider of the services is complying with stated requirements. The Forest Service, as a component of the U.S. Department of Agriculture, is implementing CSI and, for FY 2003, had a goal of studying 3,015 of its commercial FTEs.

Competitive Sourcing Costs

The Forest Service established a headquarters Competitive Sourcing Program Office (CSPO) to implement CSI. No funds are appropriated for CSI; the Forest Service absorbs CSI costs within its existing budget. For FY 2002 and FY 2003 combined, the Forest Service estimated spending approximately $23.6 million on CSI: $14.8 million on employee salaries and benefits, $5.6 million on support contracts, and $3.2 million on travel and in-house training. These are only estimates, however, because the Forest Service did not track such costs during this period. For FY 2004, the Congress has limited the Forest Service to $5 million for competitive sourcing studies and related activities.

The Forest Service is required to report to the House and Senate Committees on Appropriations the incremental costs directly attributable to conducting competitions in FY 2003. It is in the process of calculating such costs in accordance with OMB guidance issued February 26, 2004, for preparing the report. Forest Service officials expect to report only a portion of the estimated $23.6 million they have spent on competitive sourcing through FY 2003. OMB guidance requires agencies to report only those costs associated with: (1) consultants or contractors who participated in the conduct of specific competitions; (2) travel, training, or other

incremental expenses directly attributable to the conduct of the reported competitions; and (3) salaries and benefits of those staff hired specifically to work on a particular competition or employee overtime. To date, the Forest Service has identified approximately $6.2 million associated with the first two incremental cost categories and is in the process of reviewing salaries and benefits and other study costs to determine what should be reported. It is expected that the majority of the more than $11.7 million spent on salaries and benefits associated with studies will not be reported because most was incurred during regular working hours. Also, the Forest Service will not be reporting the almost $5 million spent for program office and program start-up and indirect costs because they are not associated with specific studies.

Inventories of Activities

Agencies annually prepare inventories of their commercial and inherently governmental activities as part of their effort to identify activities appropriate for competition. The requirement to prepare inventories of commercial activities was codified in the Federal Activities Inventory Reform (FAIR) Act of 1998 and such inventories are now referred to as FAIR inventories. Agencies are also required to assign each commercial activity one of six "reason codes," indicating their suitability for competition. For example, Reason Code A indicates activities inappropriate for private sector performance, Reason Code B indicates activities suitable for competition, and Reason Code C indicates activities subject to an in-progress competition.

Forest Service employees involved in preparing the FY 2003 FAIR inventories of commercial activities do not believe they accurately reflect Forest Service activities. The FY 2003 FAIR inventory identified almost 79 percent of the agency's total FTEs as performing commercial activities, up from 59 percent in FY 2000. They questioned the accuracy of the classification of activities as either commercial or inherently governmental as well as the categorization of FTEs by function codes. Moreover, the employees noted the Forest Service's decision not to identify any of the commercial activities as unsuitable for competition (Reason Code A) had resulted in commercial activities they considered "core" to the agency's mission being subject to competition. The Forest Service did not use Reason Code A on its FY 2003 FAIR inventory because it had not developed guidance on using it. Forest Service employees were particularly concerned that the Forest Service had not considered membership in the agency's firefighting militia as a factor in categorizing FTEs as commercial or inherently governmental or in assigning reason codes. The firefighting militia is composed of employee volunteers with firefighting training.

Competition Plan

The Forest Service prepared its FY 2003 Competitive Sourcing Implementation Plan with the assistance of consultants. The plan identified five types of activities to be studied and established a goal of studying 3,035 FTEs by the end of FY 2003, or about 15 percent of the 20,230 FTEs on its FY 2000 FAIR inventory. The activities selected for study were: (1) buildings, grounds, roads, trails, and fleet maintenance; (2) Information Technology (IT) infrastructure, including desktop and server support, databases, telecommunications, security, design, integration and testing; (3) IT help desk; (4) Content Analysis Team that is primarily

responsible for analyzing public comments to surveys issued by the Forest Service and Department of the Interior; and (5) 18 Job Corps Centers.

Forest Service officials involved in preparing the competition plan do not believe some of the activities selected for study were the most likely to result in greater efficiencies. For example, some officials questioned the selection of maintenance activities for study because private sector contractors were already performing a high percentage of the maintenance functions (82 percent of buildings and grounds, 90 percent of fleet, and 69 percent of roads) and the Job Corps Centers because they were known to be operating effectively. The officials reported feeling under pressure to meet agency FTE targets and, therefore, selected activities they believed would allow the Forest Service to meet goals, be easy to study, and generate studies that could be completed within the year.

Competitive Sourcing Studies

The Forest Service initiated 171 studies in FY 2002 and FY 2003 combined, involving 3,694 FTEs, and has completed 169 studies as of February 2004. Of the 171 studies initiated, 150 were maintenance studies; 18 were Job Corps Center studies; and the remaining 3 studies involved the IT infrastructure, the IT help desk study, also called the End User Support Center (EUSC), and the Content Analysis Team. The Forest Service won 161, or 95 percent, of the competitions. Historically, according to OMB data, the Government has won about 50 percent of competitions. Forest Service officials anticipate a reduction of no more than 75 FTEs resulting from the studies; to date, 16 FTEs have been eliminated in maintenance activities.

Analysis of the 169 completed studies revealed several key factors that contributed to the unusually high percentage of Forest Service "wins," including: (1) Forest Service decisions to conduct maintenance studies of small numbers of FTEs, and (2) Forest Service and OMB methodologies for calculating estimated agency and private sector costs. More than 46 percent of the 169 completed studies, or 78 studies, involved 3 FTEs or fewer, 36 of which involved only a fraction of an FTE. Forest Service officials acknowledged studying such small numbers contributed to unrealistic competitions and made it unlikely that private sector providers would submit bids.

Almost all studies of 3 FTEs or less were conducted in three regions: the Pacific Northwest Region, the Southern Region, and the Eastern region. In the Southern Region, for example, 24 of its 40 studies involved a fraction of an FTE, one as small as .08 FTE. Because of the prevalence of multi-tasking in the Forest Service, the Forest Service allowed single FTEs to be divided into as many as 20 function codes on its FAIR and inherently governmental inventories. Coding FTEs into such small fractions also multiplies the number of positions affected by each study. For example, while the majority of studies involving less than one FTE affected two to four positions, one trails maintenance study of .97 FTE affected 15 positions. While conducting such small studies contributed to the Forest Service winning 95 percent of the competitions, a senior Forest Service official did not believe there was any malice or forethought in conducting such small studies but noted, "By slicing and bundling the way we did, nobody could beat us."

Methodologies used to calculate the estimated costs of agency and private sector performance for comparison purposes generally favored the agency. For example, in some studies, the Forest Service bundled together dissimilar functions such as fleet, buildings and grounds, and road maintenance, into a single study. Such bundling complicated cost calculations because it was unlikely there were existing contracts providing similar services for comparison. In one such study,
the Forest Service had to estimate the cost of performing 800 different tasks. In 19 studies conducted in the Northern, Rocky Mountain, Southwest, and Intermountain regions, the estimated private sector costs exceeded estimated agency costs by an average of 16 to 1.

Cost calculations also favored the Forest Service because OMB Circular A-76 requires Federal agencies to add to private sector cost estimates: (1) a minimum conversion differential equal to 10 percent of the agency's labor costs to perform the service, and (2) a contract administration cost. The contract administration cost is to account for costs an agency would incur managing a contract with a private sector company, such as costs associated with processing payments and negotiating change orders. On studies of 10 or fewer FTEs, the impact of contract administration costs can be significant. For example, in 57 of 87 competitions in two regions, the addition of a contract administration cost increased the private sector cost estimate by at least 20 percent. Moreover, in 20 of the competitions, the contract administration cost alone exceeded the total estimated cost for the agency to perform the services.

Current and Future Competitive Sourcing Activities

For FY 2004, the Forest Service initially planned to complete four studies initiated in FY 2003, the IT infrastructure study and three maintenance studies, initiate two new studies, and conduct two Business Process Reengineering (BPR) studies on human resources and budget and finance. However, in February 2004, the Forest Service received Department of Agriculture permission to forgo initiating any new competitive sourcing studies in light of the amount of work associated with implementing the results of studies initiated in FY 2003. CSI activities for FY 2005 and beyond are currently being reviewed as part of the Forest Service's effort to update its Competition Plan. Regional fire management officials are concerned that the Forest Service will adopt a too aggressive CSI schedule which could divert employees and impact the agency's ability to effectively implement fire suppression.

Competitive Sourcing Impacts

According to Forest Service employees, implementing CSI in FY 2003 took a toll on employee morale and work production. The employees complained that the Forest Service did not do the necessary upfront planning nor provide sufficient guidance to ensure CSI was implemented efficiently and effectively. As a consequence, they noted there was frustration, duplication of efforts, and time diverted from accomplishing their work. More importantly, most of the CSI work occurred during the summer, the Forest Service's busiest time of the year. One region estimated that 100 employees staffed 47 study teams and another region estimated 184 of its employees expended 12,780 hours responding to the more than 50 data calls on the IT Infrastructure study.

Among the activities Forest Service employees identified as being postponed in FY 2003, due to a combination of CSI and fire suppression work, were: (1) a $300,000 architect and engineering capital improvement contract for the redesign of the Newberry National Volcanic Mountain's visitor center, and (2) the reconfiguration and re-imaging of computer equipment. The employees also reported increased stress and more overtime, limited managerial time spent on
strategic planning and oversight, as well as deferred or incomplete maintenance. Forest Service officials are concerned that the full impact of FY 2003 CSI efforts may not be realized for years and, more importantly, they are concerned history will repeat itself in FY 2004.

Reported Savings from Public-Private Competitions

The Forest Service plans to report to the Congress, annual savings of $5 million resulting from FY 2002 and FY 2003 competitions. The bulk of reported savings, $4.6 million, is derived from contracting with a private sector company to provide the EUSC IT help desk services, a single point of contact help desk for computer and software-related problems. Contracting out the help desk function, however, did not result in the elimination of any FTEs, as employees performing help-desk functions continue to perform other IT duties.

Lessons Learned

After completing the FY 2003 CSI competitions, the Forest Service's Competitive Sourcing Program Office compiled, but has not yet disseminated, a list of lessons learned. The list includes:

-- Collateral firefighting duties are a special case, and fire-fighting activity should be studied separately in order to determine how these duties should be linked to the core fire mission.

-- Where volunteers are used, their work should be combined with Forest Service activities to determine the true cost of performing services.

-- Because of the tight timeframes for CSI studies, preplanning is necessary to complete the studies on time.

-- Past performance as well as cost will be used as a best value comparison in selecting the most efficient provider.

-- Future study costs will be better controlled by conducting centrally managed studies, implemented by national or multi-regional teams with expertise.

I. INTRODUCTION

A. Directive

By letter dated September 5, 2003, the Committee directed an investigation of the U.S. Forest Service's implementation of and a detailed report on the Administration's Competitive Sourcing Initiative (CSI). The investigation was to focus on: (1) funding and expenditures for FY 2003 and planned for FY 2004; (2) CSI contracts; (3) cost savings; (4) impacts on programs and personnel; and, (5) CSI policies and goals. Also included was a status report on the Forest Service's Field Decisions Leadership Initiative

B. Scope of Inquiry

This report does not provide results of a comprehensive examination of the competitive sourcing efforts of the Forest Service; it addresses those competitive sourcing issues tasked by the Committee Directive. In the course of the investigation, documents were obtained, and interviews were conducted with officials at the U.S. Department of Agriculture (USDA), the Forest Service, the Congressional Research Service, and the Office of Management and Budget (OMB) in Washington, D.C. Visits were made to four of the nine Forest Service regional offices: Denver, Colorado; Missoula, Montana; Portland, Oregon; and Vallejo, California. Visits were also made and meetings held with officials at five national forests, three research stations, and two Job Corps Centers. Discussions were held with Federal union representatives and with Forest Service consultants supporting the competitive sourcing programs in Washington, D.C. and at the regional offices.

C. Background

A longstanding policy of the Federal Government has been to open commercial activities being performed by the Government to the dynamics of public-private competition as a means to improve the performance and efficiency of Federal programs. Commercial activities are recurring services Federal agencies determine could be performed by the private sector. Studies have concluded that subjecting in-house operations to competition generates cost savings, anywhere from 10 to 40 percent on average, regardless of whether the competition is won by a private contractor or the Government. Studies also have cited improvements in service delivery. However, despite potential cost savings and Federal laws and policies requiring Federal agencies to conduct public-private competitions, with the exception of the Department of Defense (DOD), few agencies have done so.

In August 2001, the Administration called upon Federal agencies to accelerate their use of competitive mechanisms to determine the best and most cost-effective provider of functions currently performed by their employees. At that time, OMB estimated nearly half of all Federal employees were performing tasks that were readily available in the commercial marketplace, tasks such as data collection, administrative support and payroll services. In FY 2002, the Administration identified CSI as one of five Government-wide initiatives in its management agenda. As part of this Initiative, OMB has strengthened and clarified policies and procedures governing public-private

competitions and required agencies to develop competition plans. Although initially OMB established numeric goals for the number of positions to be competed, they have since been abolished.

The Forest Service, as a component of USDA, is required to implement CSI. Authorized approximately 35,500 Full Time Equivalent (FTE) positions in FY 2003, the Forest Service determined 78.6 percent of them, or almost 27,900 FTEs, were performing commercial activities and that all of them were suitable for public-private competition. The remaining 7,600 FTEs were determined to be performing inherently governmental activities, those activities that are so intimately related to the public interest as to mandate performance by Government personnel. Under CSI, the Forest Service competed activities involving approximately 3,694 commercial FTEs in FY 2002 and FY 2003 combined. Through FY 2003, the Forest Service estimated it spent $23.6 million on CSI efforts. For FY 2004, Congress has limited the amount the Forest Service can spend on competitive sourcing studies and related activities to $5 million.

II. MANAGEMENT STRUCTURE AND IMPLEMENTATION COSTS

A. Competitive Sourcing Initiative

CSI focuses on revitalizing and institutionalizing public-private competition through: (1) ensuring dedicated high level management commitment to competition, (2) better publicizing the activities subject to competition, and (3) simplifying and improving the procedures for conducting competitions. Under CSI, Federal agencies are required to designate a Competitive Sourcing Official, centralize management oversight, and prepare agency-specific competition plans customized to the agency's mission and workforce mix. OMB has also expanded agency reporting requirements on their activities.

Since at least 1979, OMB has required agencies to annually prepare inventories of commercial activities and their associated FTEs as part of their effort to identify activities appropriate for competition. This requirement was codified in the Federal Activities Inventory Reform (FAIR) Act of 1998. Such inventories, now referred to as FAIR Act inventories, are the basis for agencies' decisions' on which activities to select for competition. In FY 2001, OMB began requiring agencies to report on all of their activities, including inherently governmental activities. In addition, in FY 2003 OMB revised Circular A-76, "Performance of Commercial Activities" that provides policies and guidance to Federal agencies for determining who, a Federal agency or private business, will perform a commercial activity.

The revised Circular, issued in May 2003, contains changes considered the most significant in its history. For example, the revised Circular: (1) eliminated a long-standing policy that discouraged the Government from competing with the private sector, (2) eliminated agencies' practice of directly converting work from public to private sector performance so that both sectors' capabilities are considered in deciding who will perform the activity, (3) required agencies to justify their classifications of activities as either inherently governmental or commercial, (4) imposed mandatory timeframes for completing some types of competition, (5) required agencies to track costs and savings of performance, (6) increased post-competition accountability, and (7) more clearly defined the roles of participants in the competition process.

CSI, now in its third year of implementation, requires agencies to: (1) prepare FAIR Act inventories of commercial activities and inherently governmental inventories; (2) develop a CSI competition plan; (3) conduct public-private competitions, also called studies; and (4) provide post-competition management and accountability. The Forest Service has complied with these requirements and, with the completion of 169 studies, is becoming involved in post competition management and accountability.

CSI and other efforts under the President's management agenda have replaced the Forest Service's Field Leadership Decisions Initiative (FLDI) for addressing long-standing Forest Service management problems. The FLDI, announced in the FY 2003 budget submission, was intended to improve decision-making authority/capability at the national forest level, reduce accounting structure burden, increase competitive sourcing, and reduce Washington office and

regional office staffing. The Congress, however, expressed concerns about FLDI. Due to these Congressional concerns, coupled with the recognition that the President's management agenda would address most, if not all of the FLDI identified management problems, Forest Service officials stated FLDI was never implemented.

B. Management Roles and Responsibilities

1. Office of Management and Budget

OMB is responsible for Government-wide implementation of competitive sourcing and for developing implementation guidelines and standards. OMB also reviews and approves agency inventories and competition plans, and measures agency performance.

2. Department of Agriculture

USDA designated its Chief Financial Officer (CFO) as its Competitive Sourcing/A-76 Coordinator. In this capacity, the CFO is responsible for defining the parameters of USDA's CSI program, developing and maintaining the USDA competition plan, providing guidance necessary for establishing and executing CSI within USDA, monitoring program execution, and reporting on CSI implementation to OMB as required. The CFO also acts as the intermediary between OMB and the Forest Service. USDA also established a Competitive Sourcing/A-76 Program Office to accomplish Department level requirements and assist USDA organizations in the execution of their programs.

3. Forest Service

The Forest Service centralized its management and oversight of CSI in a Competitive Sourcing Program Office (CSPO), established in October 2002 in its Washington office. CSPO is authorized eight full time positions, of which five are filled. The Forest Service Executive Leadership Team, composed of the Forest Service Chief, Associate Chief, Chief of Staff, and the six Deputy Chiefs, provides overall guidance and CSI direction on a national level. The Executive Leadership Team is advised by the National Leadership Team, a body that includes the nine Regional Foresters. However, regional, national forest, and district office staff across the Forest Service are actively involved in all aspects of implementing the Initiative, including preparing the inventories of activities, conducting the studies, certifying and implementing study results, and accomplishing post-competition oversight and reporting.

C. Competitive Sourcing Funding and Costs

The Forest Service did not request, nor did the Congress appropriate funds for implementing CSI. As a consequence, the Forest Service has had to absorb CSI costs within its existing budget limitations. Rather than centrally earmarking funds for CSI, the Forest Service directed each Forest Service office involved in CSI to absorb the costs it incurred, such as consultant contracts and employee travel and training, within its existing budget. A Forest Service regional office, for example, would use its facilities maintenance account to fund a facilities maintenance study.

Forest Service officials estimated the Forest Service spent approximately $23.6 million on CSI efforts: $490,000 in FY 2002 and $23.1 million in FY 2003. As shown in the following table of estimated competitive sourcing costs for FY 2002 and FY 2003, the Forest Service spent almost $18.7 million on studies and approximately $5 million on the program office and program start-up and indirect costs. According to Forest Service officials, the latter category includes costs such as the initial CSI training provided to employees at all levels nationwide, including the associated consultant contracts.

U.S. Forest Service
Competitive Sourcing Initiative
Estimated Costs
FY 2002 and FY 2003

Function/Activity	Salary and Benefits	Travel	Support Contracts	In-House Training	Totals
Studies	$11,760,653	$1,779,732	$5,049,847	$ 81,665	$18,671,897
Program Office	318,000	20,000	125,000	0	463,000
Program Start-up and Indirect Costs	2,741,900	326,279	430,347	1,002,281	4,500,807
TOTALS	$14,820,553	$2,126,011	$5,605,194	$1,083,946	$23,635,704

Forest Service officials who compiled the cost estimates believed them to be reasonable; however, they acknowledged that many of the costs could only be estimated because the Forest Service did not track CSI costs during that period. Forest Service officials explained the cost estimates were compiled "after the fact," based upon review of agency records for travel, support contracts, in-house training costs, as well as employees' recollection of time spent on CSI activities. There are some organizations, such as the Forest Service National Federation of Federal Employees union, that believe the Forest Service's CSI cost estimates are currently underestimated.

The ability of the Forest Service to accurately report CSI costs has become important because of the legislative requirements contained in the FY 2004 Department of Interior Appropriations Act, Public Law 108-108. The legislation, enacted in November 2003, requires the Departments of Interior and Energy and the Forest Service to annually report on their CSI expenditures to the House and Senate Committees on Appropriations. The legislation requires the agencies to report the incremental cost directly attributable to conducting competitions, including costs attributable to paying outside consultants and contractors. Additionally, the legislation limits Forest Service spending "for competitive sourcing studies and related activities" to $5 million in FY 2004.

On February 26, 2004, OMB issued guidance on reporting costs attributable to competitions. The guidance requires agencies to include the following costs in their calculations: (1) costs of consultants or contractors used in conducting competitions; (2) travel, training, or other incremental expenses directly related to competitions; and (3) cost of staff

hired specifically to work on competitions, or overtime costs. The guidance excludes: (1) costs of in-house staff time spent on competitions during regular work hours, (2) costs of central program oversight, and (3) costs incurred prior to announcement of the competition. As a consequence, Forest Service officials stated they would be reporting only a portion of the estimated $23.6 million spent on CSI through FY 2003. To date, the officials have identified approximately $6.2 million in consultant costs and travel, training, or other incremental costs and are in the process of reviewing salaries and benefits to determine what should be reported. The majority of the almost $11.8 million in salary and benefits shown as study costs in the previous table probably would not be reported because it was incurred during regular work hours. Also, the almost $5 million spent on program office and program start-up and indirect costs would not be reported because the costs are excluded under the new guidance.

Forest Service officials stated that the expected expenditures on competitive sourcing studies in FY 2004 should not exceed the $5 million Congressional limitation. However, the Forest Service is not planning to count the approximately $4.6 million it expects to spend conducting two Business Process Reengineering (BPR) studies in FY 2004 as competitive sourcing study costs, albeit it expects to count the 1,100 FTEs to be studied under the BPR studies and any resulting cost savings towards its competitive sourcing goals. BPR studies are broader-based than competitive sourcing studies. They examine an activity's entire organization and work processes, including work performed by commercial and inherently governmental FTEs, to improve efficiency and cost-effectiveness but are not required to result in public-private competitions.

III. INVENTORIES AND COMPETITION PLANS

A. Inventory Requirements

Agencies develop their inventories by assigning a function code to each FTE, or portion of an FTE, that reflects the type of activity being performed. Agencies may use OMB-provided function codes or, with OMB approval, use agency-developed codes. Agencies are also required to assign each activity on their FAIR Act inventories one of six "reason codes," reflecting agencies' determination that it is: (A) not appropriate for private sector performance, (B) suitable for competition, (C) subject of an in-progress competition, (D) performed by Government personnel as a result of competition within the past 5-years, (E) pending an agency approved restructuring decision, such as closure or realignment, or (F) performed by Government personnel due to a statutory prohibition against private sector performance. OMB Circular A-76, however, requires agencies to prepare written justifications for activities designated as inherently governmental functions and commercial activities assigned Reason Code A. In accordance with both the FAIR Act and the Circular, interested parties are allowed to challenge agencies' classification of activities as inherently governmental or commercial, as well as the reason codes.

1. Forest Service Inventories

The Forest Service has implemented a decentralized approach to preparing its commercial and inherently governmental inventories. While some inventories are prepared at the regional level, most regions aggregate information from sub-units before forwarding to CSPO for compilation. According to Forest Service officials, the Forest Service prepared its first FAIR Act inventory in FY 1999 and its first inherently governmental inventory in FY 2001. The inventories prepared for FY 1999 through FY 2002 were based upon the annual budgeted FTEs and position lists and were categorized by activities using the DOD-developed function codes. However, for the FY 2003 inventories, the Forest Service changed the basis for total FTEs from budgeted FTEs to the number of FTEs on the payroll on September 30, 2002, and adjusted the definitions of 151 function codes and created sub-codes to more accurately reflect Forest Service activities. These revised codes are grouped into 19 function categories. Also, as required by OMB, the Forest Service has developed a Strategic Workforce Inventory Database designed specifically for managing FTE information and implementing year-to-year changes.

The following two tables summarize FAIR Act inventories since FY 2000 and the inherently governmental inventories since FY 2001, respectively. The inventories made available to the Congress and the public provide more detail showing FTE location, total FTEs in each function code, status, reason codes, first year of inventory, and year of cost comparison. On the FY 2003 FAIR Act Inventory, the Forest Service used only reason codes B, C, and E. It identified approximately 93 percent of its commercial FTEs as suitable for competition (Reason Code B), approximately 6 percent as subject to an in-progress competition (Reason Code C), and less than 1 percent as pending an agency approved restructuring decision (Reason Code E). No FTEs were identified as inappropriate for competition (Reason Code A). The current Forest

Service Competitive Sourcing Implementation Plan, as required by OMB, is based upon the FY 2000 FAIR Act inventory.

U.S. Forest Service
Federal Activities Inventory Reform Act
Inventories of Commercial Activities
FY 2000 through FY 2003

	Function Code Categories	Commercial FTEs			
		FY 2000	FY 2001	FY 2002	FY 2003
A	Recruiting, Testing and Inspection Services	54.0	36.3	41.0	157.8
B	Personnel Management	383.2	390.8	866.1	1,054.5
C	Finance and Accounting	657.0	665.9	1,120.3	1,288.0
D	Regulatory and Program Management Support Services	340.3	333.6	343.9	96.8
E	Environmental Services	438.5	556.6	2,083.3	2,495.4
F	Procurement	93.7	155.2	222.9	528.7
G	Social Services	483.0	500.5	423.7	173.9
H	Health Services	60.0	61.0	99.8	486.0
I	Investigations	44.5	44.0	36.0	67.9
J	Repair and Maintenance of Equipment	32.7	34.8	58.6	304.2
K	Depot Repair, Maintenance, Modification, Conversion or Overhaul of Equipment	14.3	11.0	4.0	0
L	Grants Management	40.3	43.3	62.5	141.1
M/N	Forces and Direct Support	0	9.3	6.5	0
P	Base Functions and Multifunction Contracts	0	0	0	0
Q	Civil Works	2.0	56.8	416.9	378.7
R	Research, Development, Test and Evaluation	1,404.1	1,665.7	2,522.1	2,390.1
S	Installation/Facility Management and Physical Security	4,905.6	3,539.7	5,943.5	499.0
T	Other Non-Manufacturing Operations	9,132.2	7,914.7	6,711.0	12,017.8
U	Education and Training	438.3	4,413.3	397.7	460.2
W	Communications, Computing and Other Information Services	932.4	917.6	1,743.8	1,965.0
X	Products Manufactured and Fabricated In-House	2.0	242.8	0.8	0
Y	Force Management and General Support	483.3	1,727.8	810.0	2,332.4
Z	Real Property Project Management, Maintenance, and Construction	288.5	376.6	521.8	1,051.8
	Total Commercial FTEs	20,229.9	23,697.3	24,436.2	27,889.3
	Total Agency FTEs Inventoried	34,515.0	37,360.3	32,429.9	35,492.5
	Percentage of Commercial FTEs	58.6	63.4	75.4	78.6

U.S. Forest Service Inherently Governmental Inventories FY 2001 through FY 2003				
Function Code Categories		Inherently Governmental FTEs		
		FY 2001	FY 2002	FY 2003
A	Recruiting, Testing and Inspection Services	14.3	7.0	25.0
B	Personnel Management	524.6	192.5	169.1
C	Finance and Accounting	620.8	376.0	389.8
D	Regulatory and Program Management Support Services	103.8	72.0	9.8
E	Environmental Services	253.1	311.7	374.5
F	Procurement	568.5	1.0	1,465.9
G	Social Services	5.5	8.0	8.2
H	Health Services	0	0	0
I	Investigations	602.5	640.0	646.8
J	Repair and Maintenance of Equipment	2.8	5.0	6.7
K	Depot Repair, Maintenance, Modification, Conversion or Overhaul of Equipment	2.0	0	0
L	Grants Management	22.5	25.0	63.8
M/N	Forces and Direct Support	198.0	0	0
P	Base Functions and Multifunction Contracts	0	1.0	0
Q	Civil Works	445.3	131.0	178.4
R	Research, Development, Test and Evaluation	1,756.9	277.0	221.5
S	Installation/Facility Management and Physical Security	7,264.0	1,391.6	28.5
T	Other Non-Manufacturing Operations	681.5	2,905.9	2,805.4
U	Education and Training	288.8	43.0	10.9
W	Communications, Computing and Other Information Services	0	203.0	65.5
X	Products Manufactured and Fabricated In-House	281.8	1.0	0
Y	Force Management and General Support	26.3	1,358.5	981.9
Z	Real Property Project Management, Maintenance, and Construction	0	43.5	151.5
	Total Inherently Governmental FTEs	13,663.0	7,993.7	7,603.2
	Total Agency FTEs Inventoried	37,360.3	32,429.9	35,492.5
	Percentage of Inherently Governmental FTEs	36.6	24.6	21.4

2. Evaluation of the Inventories

There is concern among Forest Service employees who were involved in preparing and reviewing the inventories that they do not accurately reflect Forest Service activities. They questioned the accuracy of the categorization of FTEs by function codes as well as the classification of activities as either commercial or inherently governmental. Moreover, the employees noted the Forest Service's decision not to assign Reason Code A to any commercial FTEs had resulted in almost 100 percent of the commercial FTEs being suitable for competition, including FTEs performing "core" agency functions.

As evidence of the FTE categorization problems, Forest Service employees cited the significant annual shifting of FTEs between function categories since FY 2000. For example, the number of FTEs categorized under the function code "Education and Training" on the FAIR Act inventories has varied from 438.3 FTEs in FY 2000, to 4,413.3 FTEs in FY 2001, to 397.7 FTEs in FY 2002, and to 460.2 FTEs in FY 2003. The employees attributed such fluctuations to changing OMB guidance on function codes and difficulties in "force fitting" Forest Service activities into DOD-defined functions. They noted OMB changed the definitions of approximately 67 percent of the FTE function codes between FY 1999 and FY 2000, affecting more than 15,500 FTEs; expanded the number of function codes in FY 2001; and deleted 50 function codes and redefined the reason codes in FY 2003. The employees also noted that OMB's changes often were made late in the inventory process, making it difficult to ensure they were consistently implemented across regions. Moreover, Forest Service officials are not optimistic OMB guidance for the FY 2004 inventory process is much better. As of mid-February 2004, OMB had yet to approve the Forest Services' FY 2003 inventories or to provide guidance on preparing the FY 2004 inventories that are due to USDA by March 31, 2004.

Forest Service employees also attributed inaccurate categorization of Forest Service FTEs to insufficient Forest Service guidance and training on using function codes, short reporting timeframes, and the Forest Service policy on how to count FTEs performing more than one function. While there is no OMB guidance on how to count FTEs performing multiple functions, USDA guidance states FTEs should be coded based on the type of work performed most. For compiling
FY 1999 through FY 2002 inventories, the Forest Service allowed for FTEs to be counted in up to four function codes, or .25 FTE; for the FY 2003 inventories, a single FTE could be divided into as many as 20 function codes, or .05 FTE. According to Forest Service officials, USDA officials advised them not to count below .25 FTE. A CSPO official justified using .05 increments because the Forest Service makes extensive use of multi-tasking to accomplish its mission, particularly in remote field locations, and has a large number of seasonal, intermittent, and part time positions. For example, a Forest Service crew sent to a remote building site to perform a specific maintenance function such as roof repair would also be expected to perform other general maintenance activities such as plumbing or electrical repairs, if needed. Also, the crew would be expected to perform maintenance on trails used to get to the site, removing obstacles and trail weed. Some regional staff involved in compiling the inventories believed making accurate coding decisions to $1/20^{th}$ of an FTE was impossible.

Multiple coding of single FTEs, according to Forest Service employees, also complicates conducting studies. They explained that the practice distorts the difference between the numbers of FTEs involved in a study with the number of positions affected. For example, a road maintenance study of 1.79 FTEs actually affected 13 positions, and a maintenance study of 14.68 FTEs affected 52 positions.

Forest Service employees also questioned the high percentage of commercial FTEs vis-à-vis other agencies. In FY 2003, the Forest Service reported almost 79 percent of its FTEs as commercial, as compared to a Federal agency-wide average of 53 percent. CSPO

officials, although aware of differences between Forest Service inventories and those of other Federal agencies, admitted they had done no analysis to determine the reason nor, until FY 2004, did they begin working with other land management agencies to ensure consistency between their inventories.

Forest Service officials opined that one reason for the low percentage of inherently governmental FTEs is that both USDA and OMB questioned the number of inherently governmental FTEs on the Forest Service's FY 2002 inventory. Forest Service officials also stated they were told DOD reported only about 10 percent of its FTEs as inherently governmental and that OMB would not approve the Forest Service's inventories until its concerns about the high number of inherently governmental FTEs were resolved. (OMB documents show that DOD actually reports 31 percent of its FTEs as inherently governmental.) Regional Forest Service employees reported that headquarters officials had returned inventories to them if they included too many inherently governmental FTEs. They were told that the high percentage of services already contracted out to the private sector was evidence that most Forest Service FTEs should be classified as performing commercial activities.

Lastly, Forest Service employees were critical of the agency's failure to assign Reason Code A to any of its commercial FTEs, particularly to members of its firefighting militia. Reason Code A allows an agency to classify an activity as commercial, but core to the agency, and therefore not suitable for competition. In contrast, according to OMB reports, other agencies assigned Reason Code A to approximately 27 percent of their commercial FTEs. According to CSPO officials, some regions included Reason Code A's on their FY 2003 inventories, mostly in forestry operations (fire suppression and vegetation management) and environmental and natural resource services. The Forest Service, however, did not include them on the FAIR Act inventory forwarded to USDA because it had not developed an agency justification for use of the code. CSPO officials stated they will use Reason Code A in the FY 2004 inventories.

The Forest Service relies heavily on employees outside its fire organization to volunteer for its firefighting militia that is mobilized when needed for firefighting support. Forest Service employees with firefighting training are referred to as "red-carded" employees, after the name of the system that maintains employees' fire training information. A FY 2000 Forest Service report estimated there were 18,000 "red-carded" employees, but the number available for the militia was unknown. While the Forest Service classifies positions within its fire organization as inherently governmental, it does not consider membership in the militia mandatory and therefore does not take it into consideration when classifying positions. Current CSPO guidance specifies that only in standard competitions involving fire support functions can collateral fire duties be considered "mandatory."

Forest Service fire managers argued that it is critical to the Forest Service firefighting capability that the positions of employees in high level militia fire support positions, those with authority to commit resources, be protected from competition. They noted that if such positions were lost through CSI, fire suppression costs would increase, as the Forest Service would be forced to use more contractor support. They also noted that other land management agencies with firefighting responsibilities, such as the Bureau of Land Management, classify the type of fire support positions filled by the Forest Service's militia as inherently governmental. For example, support positions include positions in aviation, external affairs, safety training, and

all initial attack firefighters. According to Forest Service officials, because the Forest Service also uses contractors to fill fire support positions, it does not consider them to be inherently governmental positions.

Forest Service employees also are concerned that OMB's guidance on how to account for work contributed by volunteers may result in the Forest Service paying more to accomplish tasks currently carried out by volunteers. The Forest Service makes extensive use of volunteers through the "Volunteers in the National Forest Act" of 1972. Volunteers account for three million hours of work annually, equating to about $36 million in labor costs. Volunteer groups such as the Boy Scouts, college students, Forest Service retirees, and outdoor enthusiasts like bikers, hikers, and nature lovers help maintain buildings and trails, educate visitors, and lead recreational activities. According to Forest Service officials, although the Forest Service incurs costs in assisting and supervising volunteers, the average cost of a volunteer is less than one-third the cost of having a Forest Service employee do the work.

OMB allows agencies the option, when studying activities that involve volunteers, to either include: (1) only the work performed by agency employees, or (2) work performed by agency employees and volunteers. However, if agencies choose the latter, agency bids must price the labor of volunteers at appropriate agency labor rates. Thus, agencies' bids would be higher than the cost they are actually paying for the required services.

For studies initiated to date, the Forest Service has included only work performed by employees. Forest Service officials stated that by excluding the work of volunteers, the agency and private sector bids were on equal footing. The officials acknowledged, however, that by competing only employee work, the Forest Service risked losing the labor of volunteers should a private sector bidder be selected. According to a FY 2002 survey of volunteers, only 11 percent of current volunteers stated they would continue volunteering with a private sector provider. Forest Service officials suggested that the longer-term solution would be to compete employee and volunteer work combined and cost that combined workforce showing its actual cost as the Government's bid.

B. Competition Plan Requirements

Under competitive sourcing, agencies are required to develop competition plans to serve as focal points for public-private competitions. The plans also constitute the basis for OMB's evaluation of agencies' progress in implementing CSI. Agencies develop their competition plans using their FY 2000 FAIR Act inventories as a baseline to identify commercial activities that might benefit most from public-private competition.

At the time agencies began preparing competition plans, OMB was requiring agencies to compete or directly convert to private sector performance a minimum of 5 percent of their commercial activities by the end of FY 2002, and an additional 10 percent by the end of FY 2003, with the goal of eventually studying 50 percent of total commercial positions. However, in July 2003, OMB eliminated Government-wide competition goals, noting it could

accomplish such goals through ensuring agencies developed appropriate competition plans reflecting agency missions and workforce mix.

1. Forest Service Competition Plan

In 2001, the Forest Service formed a CSI steering committee to oversee the implementation of CSI. Initially, the Forest Service tried to make its own selections of activities to study, but was unable to reach consensus. As a result, in early 2002 the Forest Service hired a consulting firm, Battelle, to assist in identifying commercial activities most suitable for competition. Battelle developed recommendations that were vetted and adjusted based on input from the field. In a July 2002 report, Battelle recommended nine activities to be studied over several years, with the objective of eventually reaching OMB approved goals. The activities identified by Battelle were: (1) 18 Job Corps Centers operated by the Forest Service to provide training and employment for disadvantaged youth; (2) research and development programs; (3) public works, including most forest maintenance functions; (4) Information Technology (IT) operations and maintenance; (5) administrative support services; (6) human resources management; (7) budget and finance; (8) supply; and (9) training. The National Leadership Team, the Executive Leadership Team, and the Forest Service Chief reviewed these options. In September 2002, the Forest Service announced the selection of two activities from the Battelle list for study in FY 2003: public works and IT infrastructure functions. In addition, two activities not on the list were selected for study: (1) continuation of an existing study of the Forest Service Content Analysis Team, a group primarily responsible for analyzing public comments to surveys issued by the Forest Service and Department of the Interior, and (2) a study of about 10 to 15 percent of the work currently being performed by temporary employees, as determined by local units.

CSPO, when established in October 2002, was charged with developing a Competitive Sourcing Implementation Plan. A draft plan was released to Forest Service regions in December 2002. The plan, together with a February 2003 competitive sourcing handbook, was intended to describe the Forest Service competitive sourcing program for FY 2003 and guide its implementation. The plan further clarified the activities to be studied in FY 2003 as: (1) building, ground, road, trail, and fleet maintenance and fleet management; (2) IT infrastructure functions, including desktop support, server support, database management, telecommunications, security, IT management and infrastructure design, integration, testing, and delivery; (3) the IT help desk function, also called the End User Support Center (EUSC); (4) the Content Analysis Team; and (5) selected work functions currently being performed by temporary employees. Subsequently, the Forest Service added the agency's 18 Job Corps Centers to the list of FY 2003 studies and deleted studies of the temporary positions and fleet management positions.

The Forest Service's December 2002 Competitive Sourcing Implementation Plan stated the agency planned to study 15 percent, or 3,035 FTEs, of the 20,229 FTEs identified on the FY 2000 FAIR Act inventory. According to Forest Service officials, although OMB eliminated its Government-wide numeric competition goals in July 2003, the agency chose to

keep numeric goals. In lieu of the OMB goals, the Forest Service adopted USDA-established "benchmarks" for the purpose of planning and implementing CSI studies. The following table provides the Forest Service's competitive sourcing benchmarks for FY 2003 through FY 2007. The table shows the Forest Service's current planning benchmarks are based on a goal of studying 50 percent of the agency's total commercial FTEs by the end of FY 2007. OMB has not yet approved these "benchmarks."

Forest Service Competitive Sourcing Benchmarks FY 2003 through FY 2007						
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Target Number of FTEs to be Studied	3,035	2,023	2,023	2,023	1,011	10,115
Target Number as a Percent of the total FTEs (20,229)	15	10	10	10	5	50

2. Evaluation of the Plan

Forest Service competitive sourcing officials stated they felt under pressure to meet OMB's mandated goals by the end of FY 2003, and that this pressure influenced their selection of activities to be studied. For example, the Deputy Chief for Business Operations, in a December 2002 memo to regional foresters and station directors on competitive sourcing direction and targets, stated it was imperative that the Forest Service meet its targeted goals to avoid FTE and budget reductions. Moreover, the officials stated they understood that if they met the CSI targets, the Forest Service would be able to retain both FTE and cost savings associated with implementing study results.

The focus, according to CSPO officials, was on selecting activities that were easy to study and would generate studies that could be completed during the first year, such as maintenance functions and Job Corps Centers. While this approach may have helped ensure the Forest Service would meet its 15 percent study goal, according to Forest Service officials, it did not result in studying areas where the greatest efficiencies could be achieved. A Forest Service official acknowledged, for example, that the agency knew its Job Corps Centers were operating efficiently but nevertheless selected the function for study.

Several officials also questioned the decision to identify maintenance functions for study, noting that the Forest Service already contracted with private sector companies for most maintenance functions. About 83 percent of buildings and grounds maintenance, 90 percent of fleet maintenance, and 69 percent of road maintenance is done through contracts. Moreover, about two-thirds of trail maintenance is done by contract or by volunteers. These officials suggested that a more effective approach in FY 2003 would have been to study major cost centers for inefficiencies and duplication of functions, rather than concentrating on "wage-grade, pick-and-shovel people."

IV. STUDIES AND POST-COMPETITION ACCOUNTABILITY

A. Competitive Sourcing Studies

Agencies' competition plans identify the commercial activities to be studied, but they do not identify the specific FTEs to be studied. These decisions are to be made after agencies conduct preliminary research to determine appropriate groupings of activities and business units; the current cost of performing the activities; and the availability of workload data, work units, performance standards and other data necessary to conduct competitions. Agencies must also select the type of competition to be conducted. Prior to the revision of OMB Circular A-76 in May 2003, agencies could conduct standard competitions, streamlined competitions, express competitions, and direct conversions of FTEs to private sector performance. The revised Circular eliminated the use of both the express competition and direct conversions.

Standard competitions are formal studies requiring agencies to develop Performance Work Statements (PWS) identifying the technical, functional, and performance characteristics of the service required, to solicit bids to perform the work from the private sector as well as the Government unit currently providing the service, and to assist their business unit to reengineer itself into a Most Efficient Organization (MEO) in order to compete with private sector bidders. The results of such competitions may be contested under procedures specified in the Federal Acquisition Regulations. Neither streamlined competitions (used when fewer than 65 FTEs are being studied) nor express competitions (used when 10 FTEs or less are being studied) require agencies to solicit bids or develop an MEO. Rather, agencies use existing contracts with private sector providers, General Service Administration schedules, or other industry sources to estimate private sector provider costs to be used in comparison with agency costs to provide the service.

1. Forest Service Studies

Based upon the activities identified in the Forest Service's Competitive Sourcing Implementation Plan, CSPO determined that the Washington office would centrally manage four of the five types of activities to be studied through FY 2003: (1) IT Infrastructure, (2) EUSC-IT help desk, (3) Content Analysis Team, and (4) Job Corps Centers. However, for the maintenance activities, CSPO assigned field units a targeted number of FTEs to be studied and instructed the units to review their own building, ground, fleet and road maintenance activities and determine appropriate groupings for competition. The regional foresters were responsible for ensuring that the studies and competitions were realistic and fair, as required, and that the study teams were effective; they also were to make the final determinations on who, Government employees or private sector providers, should be selected to provide these services. The field units were primarily responsible for conducting the studies.

In its instructions to the field units, CSPO helped define the core elements of the activities under study, including the types of tools, operating equipment, heavy equipment, buildings, heating systems, campgrounds and facilities, and motor vehicles that would fall under the specified general maintenance categories. CSPO also suggested to the field units that, when determining the

"size" of the activities/functions to be studied, their decisions should be driven by "how efficient the organizational unit is likely to be," regardless of who wins the competition. CSPO officials also noted that, "from an employee perspective, larger competes better."

Within the five types of activities selected for CSI, the Forest Service initiated 171 competition studies involving 3,694 FTEs and affecting 8,591 positions. The majority of the studies, 150, were of field maintenance related activities involving 1,357 FTEs. The remaining 21 studies included separate studies of each of the 18 Job Corps Centers as well as studies of the IT Infrastructure, EUSC-IT help desk, and the Content Analysis Team. The Appendix to this report provides a list of the 171 competitive sourcing studies conducted by the Forest Service in FY 2002 and FY 2003. The list shows detailed information on the number and types of studies done by region, FTEs and positions, and comparative Government and private sector performance cost estimates.

As of January 2004, 169 of the 171 studies had been completed, involving 2,474 FTEs: 4 standard studies, 70 streamlined studies, 91 express studies, and 6 direct conversions. Two of the four standard studies, the IT Infrastructure study and a maintenance study, were still on-going as of February 2004. Of the 169 completed studies, the Forest Service "won" 161, or 95 percent, including all of the streamlined studies and all but one of the express studies. For five of these competitions, the Forest Service had initially determined private sector companies could provide the services for less cost; however, when requests for proposals were issued, no responsive bids were received and the functions remained in-house. The following table provides a breakdown of the CSI completed studies, as of February 2004. The table shows only 8 of the 169 completed studies, involving 266 FTEs, are expected to result in private sector contracts.

U.S. Forest Service
Competitive Sourcing Initiative
Completed Studies
--- As of February 2004 ---

	Type and Number of Studies (FTEs)					Status of Studies		
Activities	Standard	Streamlined	Express	Direct Conversion	Total	On-going	Won by Forest Service	Won by Private Sector
IT Infrastructure	1 (1,200)				1 (1,200)	1 (1,200)		
Job Corps Centers		18 (946)			18 (946)		18 (946)	
EUSC-IT Help Desk				1 (150)	1 (150)			1 (150)
Content Analysis Team				1 (41)	1 (41)			1 (41)
Maintenance	3 (144)	52 (950)	91 (255)	4 (8)	150 (1,357)	1 (20)	143 (1,262)	6 (75)
TOTALS	4	70	91 (255)	6	171	2 (1,220)	161	8 (266)

	(1,344)	(1,896)		(199)	(3,694)		(2,208)	

Of the 266 FTEs in competitions won by private sector providers, Forest Service officials estimated no more than 75 FTEs, all in maintenance activities, would be eliminated. As of February 2004, 16 FTEs had been eliminated: eight FTEs through direct conversion and eight FTEs through express competitions. The Forest Service estimated an additional 59 FTEs in maintenance may be eliminated as the result of a standard competition. According to Forest Service officials, two of the six direct conversions, the EUSC-IT help desk (150 FTEs) and the Content Analysis Team (41 FTEs), were not expected to result in FTE reductions.

2. Evaluation of Study Results

Historically, according to OMB, the Government has won just over 50 percent of all public-private competitions. However, in Forest Service competitions, the Government won 95 percent. Analysis of the 169 completed studies revealed several key factors that contributed to the unusually high percentage of Government "wins," including: (1) Forest Service decisions on the size of its maintenance studies, and (2) Forest Service and OMB methodologies for calculating private sector costs.

a. Size of Maintenance Studies

Forest Service officials acknowledged that many of their decisions to conduct studies involving few FTEs made it impossible for private sector providers to effectively compete and contributed to unrealistic competitions. For example, 78 of the 169 completed studies, or 46 percent, involved 3 FTEs or fewer, 36 of which involved only a fraction of an FTE. Almost all of these studies were conducted in three regions: the Pacific Northwest Region (Region 6), the Southern Region (Region 8), and the Eastern Region (Region 9). In Region 8, for example, 24 of the 40 studies involved less than one FTE. The Alabama National Forest in Region 8 conducted a trails maintenance study involving only .22 of an FTE, a road maintenance study involving .54 of an FTE, and a buildings and grounds maintenance study involving .46 of an FTE. The Francis Marion-Sumter National Forest, also in Region 8, studied .08 of an FTE in a buildings and grounds maintenance study. According to Forest Service officials, the regions designed their competitions this way because the activities were so widely dispersed and most Forest Service employees involved in the activities performed multiple tasks that could only be accurately documented by using fractions of FTEs. For example, while the majority of the studies of less than one FTE affected two to four positions, one trails maintenance study of .97 of an FTE affected 15 positions.

Forest Service officials acknowledged that their decisions to conduct studies with few FTEs contributed to the Forest Service's high estimated costs for private sector providers but noted that, even if the cost comparisons had been close, the likelihood of private sector providers actually submitting bids would have been small. For example, they noted that two solicitations for proposals on studies involving six FTEs and eight FTEs resulted in no private sector bids and the activities were retained in-house. A senior Forest

Service official stated that while he does not believe there was any malice or forethought in the decisions on the size of maintenance studies, "By slicing and bundling the way we did, nobody could beat us."

b. Cost Calculations

Forest Service officials acknowledged that, for some studies, the methodologies used to estimate private sector performance costs unfairly favored the agency. They attributed methodology problems both to how some Forest Service regions chose to calculate private sector costs and to OMB's requirement that agencies add contract management costs to private sector cost estimates. Forest Service officials explained that, while technically correct, the methodologies used to calculate private sector costs in the Northern Region (Region 1), Rocky Mountain Region (Region 2), Southwest Region (Region 3), and the Intermountain Region (Region 4) resulted in unreasonable cost estimates. The four regions chose to work together and formed teams, called Interior West Operations Leadership Teams (IWOLT), to conduct CSI studies. The teams conducted 19 streamlined studies ranging in size from 7 FTEs to 60 FTEs and won all of them. The following table shows the estimated private sector versus agency costs identified in the IWOLT studies. As shown in the table, the estimated private sector costs exceeded agency costs by an average factor of 16 to 1. In one Region 2 study, agency costs were estimated at $9.1 million and private sector costs at $634 million for the same work.

U.S. Forest Service
Interior West Operations Leadership Team Studies
Estimated Private Sector Versus Agency Costs
--- $ In Millions ---

Region	IWOLT Studies	Estimated Private Sector Costs	Estimated Agency Costs	Ratio of Estimated Costs-Private Sector Versus Agency
1	5	$ 368	$ 34	11 to 1
2	3	825	32	26 to 1
3	4	616	36	17 to 1
4	7	717	54	13 to 1
TOTALS	19	$2,526	$156	16 to 1

A senior Forest Service official acknowledged that the large differences between the estimated agency and private sector costs were not logical, especially when compared to other existing maintenance contracts for similar functions and the fact that the private sector cost estimates in each region greatly exceeded the $253 million the Forest Service spent agency-wide on all maintenance activities in FY 2002. Forest Service officials attributed the high private sector estimates to the amount of data manipulation that was done and the

lumping together of dissimilar work. For example, one IWOLT study lumped together fleet, buildings and grounds, and road maintenance into a single study that required the performance of 800 tasks. Because there were no existing comparable contracts covering all 800 tasks, regional officials stated they constructed costs for each line item using industry sources and contracts containing some, but not all tasks. According to Forest Service officials, IWOLT officials initially questioned the study results but, upon review, determined the cost calculations were accurate and that the studies were conducted in compliance with OMB Circular A-76. The CSPO, according to Forest Service officials, justified the IWOLT studies on the basis that they met the criteria of being accurate and could be duplicated.

OMB Circular A-76 requirements for calculating private sector costs also could have contributed to the few private sector "wins." The Circular requires Federal agencies to use specific cost criteria for estimating agency and private sector performance. Both agency and private sector cost estimates are to include personnel costs, benefits, materials and supply costs, overhead, and other costs attributable to performing the activity. However, the Circular also requires agencies to add two additional costs only to the private sector estimates: (1) a minimum conversion differential equal to 10 percent of the agency's labor costs to perform the service, and (2) a contract administration cost.

The contract administration cost, which is calculated automatically by the OMB software program COMPARE, is to account for the costs of those administrative functions an agency would perform if it contracted with a private sector provider, such as reviewing compliance with the terms of the contract, processing payments, negotiating change orders, and monitoring the closeout of contract operations. While only applied to the private sector estimate, most of these functions would be performed regardless of who is the provider. For activities of less than 10 FTEs, COMPARE calculates these costs to be equal to one-half (0.5) of the cost of a GS-12 Federal employee, approximately $43,000 to $45,000 annually. On a 3-year competition, these costs would increase private sector cost estimates by about $134,500; on a 5-year competition, by at least $230,000. When these amounts are added to the private sector estimates, particularly on activities involving few FTEs, they can significantly increase the total private sector estimate. For example, in 57 of the 87 competitions in Regions 6 and 8, the contract administration cost had the effect of increasing the private sector cost estimates by at least 20 percent. In 20 of the competitions, the contract administration cost alone exceeded the total estimated cost for the agency to perform the services. In at least seven express studies in Regions 6 and 8, addition of this cost was sufficient to move the private sector bid from the low to the high bid. The following table provides a comparison of the estimated agency versus estimated private sector costs for seven Region 6 and Region 8 studies.

U.S. Forest Service Comparison of Agency Versus Private Sector Cost For Seven Region 6 and Region 8 Studies --- $ In Thousands ---	
Estimated Agency Cost	Estimated Private Sector Cost

Region	FTEs Studied	Estimated Cost	Initial Cost Estimate	Contract Administration Cost	Adjusted Cost Estimate
6	3.23	$ 880.0	$ 766.6	$ 134.5	$ 901.1
6	2.70	805.7	694.5	134.5	829.0
6	6.41	925.2	921.7	134.5	1,056.2
6	2.97	869.0	737.7	232.0	969.7
6	1.60	326.9	270.8	134.5	405.3
8	0.35	124.8	113.6	230.1	343.7
8	1.26	$ 340.7	$ 315.2	$ 230.1	$ 545.3

B. Post-Competition Accountability

The revised OMB Circular A-76 increased agencies' post-competition requirements. Previously, agencies were required to conduct post-competition reviews for only 20 percent of the activities performed by the Government following a cost comparison. Now, following the award of a letter of obligation or contract, agencies must monitor, collect and report on performance and costs, regardless of the provider: public or private. To facilitate this oversight, agencies must require bidders to include a quality control plan for self-inspection in their submissions, develop a quality assurance surveillance plan to measure the performance of the selected provider, and create a database that tracks each streamlined and standard competition as events occur (real-time) from the date of public announcement of the competition through the last performance period. The Circular also requires agencies to re-compete activities by the end of the last performance period, usually every 3 to 5 years.

The Forest Service is just becoming involved in its post-competition responsibilities. According to Forest Service officials, CSPO is in the process of drafting a plan to monitor the implementation of the competitive sourcing studies and track the costs of the program, to include performance monitoring and reporting systems, termination, and follow-on competitions. Forest Service officials are concerned that post-competition requirements of OMB Circular A-76 will prove to be a significant workload. Each of the 169 completed studies requires the Forest Service to prepare either a letter of obligation or a contract. While contract actions are covered by Federal Acquisition Regulations and are relatively routine for contracting officers, the letter of obligation for in-house work involves new administration and control requirements and adds to contracting officers' workloads. Moreover, each letter of obligation or contract, regardless of the number of FTEs involved, requires separate performance cost tracking and reporting for each performance period.

C. FY 2004 and Beyond

For FY 2004, the Forest Service initially planned to: (1) complete studies initiated in FY 2003; (2) initiate two new standard competitions, one on the management function of fleet maintenance at about 1,000 locations and one on the Forest Inventory and Analysis activity that

performs the Nation's continuous forest census; and (3) conduct two BPR studies, one on human resources (900 FTEs) and one on budget and finance functions (200 FTEs). However, in February 2004, USDA approved a Forest Service request to suspend initiating new CSI studies. Postponing the studies will cause the Forest Service to miss its FY 2004 goal of studying 5,058 FTEs by 257 FTEs. Forest Service officials stated, however, they needed time to complete the on-going competitive sourcing studies and BPR studies; update the competitive sourcing plan; and finish the work required to implement the 169 completed studies, including responding to a lawsuit and bid protest.

Additionally, Forest Service officials were concerned about undertaking new studies with the $5 million Congressional limit on Forest Service expenditures on competitive sourcing studies and related activities. At the time the Forest Service requested permission to not initiate new studies, it expected to spend $3 million completing the CSI studies initiated in FY 2003 and $2 million on conducting the two new CSI studies. In March 2004, however, the Forest Service lowered its estimate of the cost required to complete the studies initiated in FY 2003 from $3 million to $1.5 million. According to Forest Service officials, the lower estimate reflects the new OMB cost reporting guidance issued on February 26, 2004. Nevertheless, the estimated cost to complete the FY 2003 studies ($1.5 million) and undertake the BPR studies ($4.6 million) will exceed the spending cap.

Competitive sourcing plans for FY 2005 and beyond will not be known until the Forest Service completes its FY 2004-FY 2008 competitive sourcing plan. Under the plan developed in FY 2003, the Forest Service had planned to conduct two small competitive sourcing studies in FY 2005, one on selected computer application functions and one on communication functions, as well as a follow-on BPR of the remaining 1,800 FTEs in the budget and finance functions. For FY 2006, the Forest Service had planned to begin the first of two studies on its fire management activity involving approximately 2,000 FTEs; the second study involving about 1,000 FTEs was to be initiated in FY 2007. Also, in FY 2007, Forest Service officials will need to develop plans for re-competing all of the activities studied in FY 2003.

Regional fire management officials are worried that the Forest Service's plan to implement an aggressive new study schedule at the same time recently completed studies are being implemented, will negatively affect the agency’s ability to effectively conduct fire suppression and associated work. In particular, these officials are concerned that the expected reorganizations resulting from the studies of human resources, budget and finance, and IT infrastructure functions will disrupt the fire suppression mission because: (1) these functions interact with and perform needed support for fire management activities, and (2) key support staff in these areas, many of whom are red-carded, will be diverted to implementing these national reorganizations. In addition, some fire management staff will be involved in planning the upcoming fire management studies, exacerbating the problem.

V. STAFFING IMPACT, COST SAVINGS, AND LESSONS LEARNED

A. Impact on Staffing

Forest Service officials at the national forest and district levels were vocal about the impact CSI has had on employees, their morale, and local work production. Although being told by headquarters that, following fire suppression, competitive sourcing was the second highest agency priority, regional officials reported that the Forest Service was unprepared to efficiently and effectively implement CSI because of a lack of up-front planning and guidance. The result was a heavy demand on employees, duplication of effort, and time diverted from achieving other objectives during the Forest Service's busiest period of the year in order to conduct CSI competitions. While the CSPO was unable to provide a count of the total number of staff required to accomplish the FY 2002 and FY 2003 studies, the Forest Service's estimated costs for FY 2002 and FY 2003 combined, showed $14.8 million, or approximately 63 percent of the total $23.6 million, was spent on staffing.

CSI had an impact on almost all employees to varying degrees. Line managers and various support and management staff were needed to fulfill the numerous requirements of conducting CSI studies. One region estimated that 100 employees, plus numerous support staff, worked on 47 study teams. In addition, workers at different levels in each of the functions being studied were involved in providing detailed support information. For example, the national IT infrastructure study had over 50 separate data calls to which employees and managers at all levels had to respond, often with short suspense dates. One region estimated that 184 employees expended a total of 12,780 hours responding to data calls for the IT infrastructure study. Due to the study team's inadequate planning, regional officials stated that responses from the field took longer than expected and often were incomplete, requiring additional conversations and resubmissions. Eventually, the study team refined its data collection process to ensure more upfront understanding of the information required before requesting data from the field.

The bulk of the CSI efforts occurred from May through September, which is the time of peak seasonal workload for the Forest Service. According to Forest Service employees, implementing CSI, coupled with fire suppression responsibilities, resulted in routine work either not being done, deferred, done through overtime or donated time, or accomplished with decreased supervision. They cited the following as examples: (1) postponement of configuration and re-imaging of computer equipment; (2) delayed $300,000 capital improvement architect and engineering contract for redesign of Newberry National Volcanic Monument's Visitor Center; (3) lost managerial time for strategic planning, issue response/staffing, and monitoring/evaluation; (4) increased stress and longer hours (credit hours, compensatory time and overtime used); (5) inability to plan engineering projects for future years; (6) not enough time to do thorough, quality-level work; (7) drinking water program left with uncertified and inexperienced operators; and (8) delayed district barracks site design.

Forest Service employees also stated that the full cost of CSI may not be realized until some future time, that the CSI process had been counter to its objective of reducing costs and

producing a more efficient organization, and that there has been a disconnect between regions and headquarters on CSI leadership and direction. For FY 2004, regional officials are concerned that not much will change. The officials stated they need more advanced planning to accommodate the normal workload along with the CSI work, and to cut down on the burdensome data calls and workload for the FY 2004 studies. In addition, CSPO has not yet implemented a transition guide to define required oversight and reporting requirements resulting from FY 2003 studies.

B. Reported Cost Savings

Agencies are required to annually report incremental costs of conducting competitive sourcing studies and to report both estimated and actual savings resulting from those competitions. OMB's new guidance for reporting on competitive sourcing to the Congress states that cost savings is generally defined as the cost of performing the function or providing the service under the "as is," or baseline, minus the cost of performing the function or providing the service under the winning bid, over the performance period. As shown in the following table of estimated competitive sourcing cost savings for FY 2003, the Forest Service estimated cost savings of approximately $5 million annually from implementing the results of seven studies.

U.S. Forest Service
Competitive Sourcing Initiative
Estimated Cost Savings
FY 2003
--- $ In Thousands ---

Study Title	Projected Savings
EUSC IT Help Desk	$4,593
Field Maintenance Activities	
Wildland Engine Model 52	155
Regional Office Building Assistant	5
Research Building and Grounds Maintenance	6
Olympic National Forest Road Maintenance	140
Umatilla National Forest Road Maintenance	73
Facilities Maintenance	46
TOTAL	$5,018

The bulk of the Forest Service's reported savings is $4.6 million annually from a contract to establish a single point of contact for computer related problems. This new organization, the EUSC IT help desk, began service in January 2003. The reported $4.6 million savings are based on the difference between the estimated cost of the Forest Service resolving a help desk call and the average cost to resolve that call by the EUSC. In FY 2001, a Forest Service consultant estimated it cost the Forest Service $85.76 to resolve a help desk inquiry on the first call. Based on actual operations in 2003, the Forest Service states that the EUSC was paid an average of $16.06 for first call resolution. During the first 9 months of operation, January through

September 2003, the EUSC resolved, on the first call, 65,900 of the approximately 150,000 total calls received. The $69.70 difference multiplied by these 65,900 calls resolved by EUSC is the basis of the claimed savings. A senior IT official acknowledged there was no budgetary reduction, nor any FTEs reduced, as a result of this contract; rather, Forest Service employees continue to perform other IT duties.

C. Lessons Learned

OMB Circular A-76 requires agencies to post lessons learned and best practices resulting from the competitive sourcing process on SHARE A-76, a DOD website used to share knowledge, information, and experiences from public-private competitions. Forest Service officials advised that, although CSPO identified the following lessons learned from FY 2003, they had not been posted to the website.

-- Multi-tasking: Although multi-tasking is one means by which the Forest Service increases its efficiency, it also causes problems in competitive sourcing. Studying a work activity that is only one of several tasks that employees perform complicates the study, increases study cost, expands the number of employees disrupted by the study, and has the potential of complicating the integrated management among programs. The solution is to select work activities that are either more isolated or less integrated, or to conduct studies of broader work activities that encompass multiple tasks within the scope of the study.

-- Collateral firefighting duties: Multi-tasking between a primary work activity and firefighting is a special case. Since the scope of employees involved in firefighting is so broad, the solutions typical to multi-tasking are not very helpful. The solution is to study the firefighting work activity itself to determine whether, and if so how, it should be reengineered. Then the other work activities can better be linked to that core mission.

-- Volunteers: Volunteers provide a significant cost advantage to the accomplishment of Forest Service programs yet they are not Federal employees. In FY 2003, the solution was to exclude the volunteer coordinators from the work activity being studied. This was particularly important for the trails maintenance studies. The longer-term solution is to combine Forest Service employees with the volunteers that they coordinate, and cost that combined workforce as the Government's bid. This will reflect the true cost effectiveness of the manner in which the Forest Service delivers services in which volunteers participate.

-- Market analysis and reengineering: In order to position the Forest Service to effectively compete, it is necessary to ensure that the “as is” organization that is compared to the competition is as cost effective as feasible. The solution is to conduct sufficient market analysis to learn best practices from likely competition and to apply that knowledge through appropriate reengineering before study initiation in the case of streamlined studies or before the Most Efficient Organization is developed in a standard study.

-- Timelines: Especially under the guidance of the revised OMB Circular A-76, the timelines for studies are prescribed and ambitious, 90 days for streamlined studies and 12 to 18 months for standard studies. The solution is to conduct whatever pre-planning and pre-positioning is necessary before the time clock starts, to ensure the ability to complete a successful study within the allotted time.

-- Best value comparisons: Least cost is one consideration in selecting the most effective provider, but other factors, such as past performance, are also important considerations in the selection of the provider that will be most cost effective. The solution is to compare providers using best value evaluations as provided for in OMB Circular A-76 rather than depend on least cost comparisons alone.

-- Study costs: While the conduct of the maintenance studies by separate teams throughout the regions, stations, and areas greatly increased the firsthand understanding of competitive sourcing among managers and employees, it was not as cost effective as more centrally conducted studies, such as the Job Corps Center studies. The solution is to conduct studies by more national or multi-regional teams that have concentrated expertise, while still drawing necessary data from appropriate field offices and retaining decision authority as low in the organization as possible. Another solution is to undertake a few large studies rather than many small studies where possible.

Other Forest Service officials who participated in the FY 2003 competitive sourcing activities suggested the following additional lessons learned.

-- Capture Lessons Learned at Regional Level: There are lessons learned at the Forest Service regional level on bundling functions to be studied, team building, preparing Performance Work Statements, market cost development, technical support, and other aspects of competitive sourcing that CSPO has not requested regions to provide.

-- Control Study Costs: In FY 2003, the cost of the IT infrastructure project skyrocketed because the Forest Service did not have tight cost controls on the number of participants, frequency of meetings, and meeting locations. Many people had an opportunity to participate in the study and attend meetings in locations like San Diego, California. Not only did allowing so many people to participate increase study costs, but it also slowed down the pace of the study.

-- Recognize Regional Differences When Developing Standards: When the Forest Service develops standards for preparing Performance Work Statements, it needs to recognize that work practices vary among regions, and even between forests in the same region. For example, although the Performance Work Statements for similar maintenance functions vary, each statement is the best and most accurate validated description of the actual work being performed at that specific location.

-- Provide Implementation Guidance Prior to Initiating Studies: In FY 2003, the Forest Service did not provide detailed guidance for conducting studies. As a consequence, each region had to learn and develop all of the methods and tools required to conduct the studies. This unnecessarily and substantially increased the workload, and resulted in "wildly varying" study results.

-- Do Not Conduct Studies During Peak Season: Competitive sourcing studies should not be conducted during the peak season for maintenance work in national forests and the heavy fire suppression months. Further, study teams should be allowed at least 12 months to plan, complete, and validate study data.

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